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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Haiti: Recent Economic Trends*

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October 1970

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
October 1970

### INTELLIGENCE MEMORANDUM

#### Haiti: Recent Economic Trends

##### Introduction

Although Haiti's backward economy lost ground during the mid-1960s, it recently has shown some improvement in certain sectors despite the Duvalier regime's continuing repression and corruption. Investment, employment, and foreign exchange earnings are at their highest levels in several years, but reports of a "boomlet" are exaggerated. Although total output has begun to grow again, many basic obstacles to economic progress remain. This memorandum examines the recent improvements and prospects for their continuing.

##### Background

1. Haiti, Latin America's poorest and most densely populated country, has a per capita income less than one-fifth the regional average. Economic development has been handicapped both by decades of violence, instability, and misgovernment and by adverse natural conditions. Only about one-third of the area is agriculturally usable, soil fertility has been largely exhausted, erosion is a widespread problem, and crops are frequently

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damaged by hurricanes or drought. There are no energy resources except for some hydroelectric potential. Minerals consist mainly of small bauxite and copper deposits.

2. Although Haiti now has 3½ to 5 million people, the modern economy remains very small. Subsistence farming embraces more than 90% of the agricultural land and perhaps 80%-85% of the population. Three-fifths of exports are agricultural products, mostly sugar and low-grade coffee from subsistence farms. Until recently, manufacturing had scarcely progressed beyond agricultural processing -- mainly sugar refining. Apparently, continued high death rates have helped to give Haiti one of Latin America's lowest population growth rates (an estimated 2%-2½%), but the economy still cannot absorb many people seeking work.

#### Economic Decline in 1963-68

3. The economy moved ahead slowly for several years after Duvalier took power in 1957 and was buoyed in the early 1960s by increased foreign aid and record tourist receipts. Publicity about the regime's character, however, soon discouraged tourism and foreign investment. Gross receipts from travel fell from \$8 million in 1961\* to \$1 million in 1964, and direct private investment averaged only about \$1 million annually in 1962-68. The United States sharply reduced its aid in 1962 and suspended most of its aid programs in 1963.

4. These setbacks were compounded by an unusual run of bad weather. Hurricanes struck in 1963, 1964, and 1966 and drought in 1968. Agricultural output dropped substantially during 1963-68, and export earnings trended downward. Seldom very robust, net foreign exchange reserves dwindled to minus \$7 million by September 1968. In contrast to the 12% gain of 1960-62, gross domestic product fell by an estimated 15% (or some 27% per capita) during 1963-68. Declining economic activity and reduced foreign aid cut government revenues and brought public investment -- half of the total by 1962 -- almost to an end.

\* Statistics in this memorandum refer to fiscal years ending 30 September of the year specified.

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Moderate Revival in 1969-70

5. With all its deficiencies, Haiti also has a few assets: cheap labor, proximity to the United States, and (as additional tourist attractions) pleasant winter climate and an exotic atmosphere. These advantages -- together with continuing inducements for industrial investment, reduced unfavorable publicity about the Duvalier government, and good weather since mid-1969 -- account for the economy's recent small improvements.

6. Under the 1963 law that offers duty-free entry for new manufacturing firms' imported inputs, foreign and Haitian businessmen obtained 46 licenses in 1969 to open establishments, compared with 22 licenses in 1968 and only a few previously. Some of the 46 facilities are already operating, and others apparently are under way. New establishments opened during 1962-68 reportedly created 5,500 jobs (10%-15% of manufacturing employment in 1968), and the licenses issued in 1969 promise appreciable further gains. Many of the new and planned facilities involve US capital, but no large, well-known corporations are represented. US investors generally limit their risks by forming joint ventures with Haitians, who lend their names and sometimes partly finance local investment costs.

7. The manufacturing operations being developed are nearly all labor intensive, some consisting of assembling US-made components for re-export and others of organizing handicraft production. Prominent goods in the first category (which enter the United States under reduced tariffs) include rubber shoes, baseballs, and simple electrical equipment. The handicraft operations for the most part produce inexpensive clothing plus such items as wood carvings, sisal rugs, and handbags for export and the tourist trade.

8. Recovery of tourist trade since 1964 also contributed to the recent economic improvement, although earnings rose only slightly last year. As other Caribbean facilities became overpriced and overcrowded or became less attractive because of local antagonism toward tourists, Haiti gained

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popularity with vacationers in spite of the repressive atmosphere. No new hotels have been built recently, but several that closed during the political upheavals of 1963-64 have reopened. Rates typically are 50%-75% less than for comparable hotels in Jamaica. The casino in Port-au-Prince reopened in 1969, and three airlines opened new routes from the United States. Tourists rose from 17,000 in 1964 to 62,000 in 1969 -- still well below the 1962 level and only one-fifth of the number visiting Jamaica. Tourist earnings nevertheless reached \$5 million in 1969 (one-seventh as much as export revenues) and more than offset the comparatively large foreign expenditures of Haitian students and travelers. The US economic slowdown probably has dampened the influx of the tourists in 1970, but not as much as in other Caribbean countries.

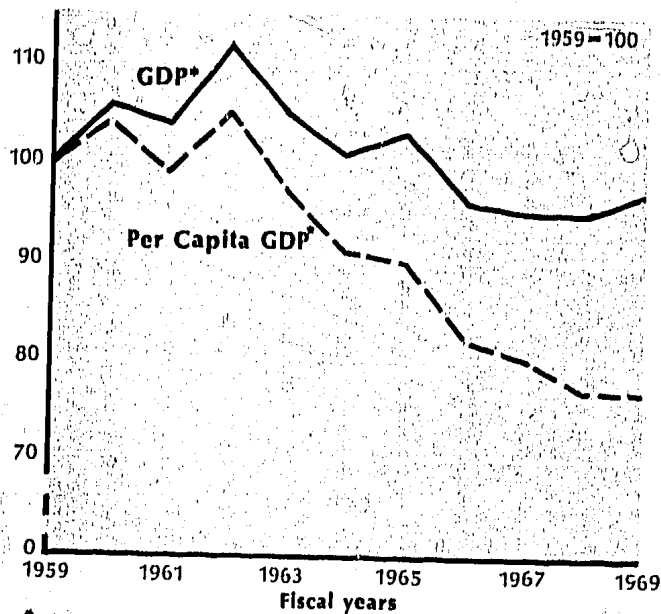
9. The economy's performance in 1969 was mediocre, at best. The moderate gain in manufacturing -- reflecting both new manufacturing operations and some recovery in traditional industries, especially cement -- left output well below earlier levels. Agriculture still suffered from the 1968 drought and output continued to decline. Mining output soared, however, as bauxite exports rose by 60%, to 764,000 metric tons. With an estimated 2% rise in 1969, gross domestic product merely approximated population growth (as shown in Figure 1). Public investment rose substantially, expenditures being concentrated on the Peligre hydroelectric plant, road construction, and improvement of the Port-au-Prince harbor facilities. The increased spending was made possible by diversion of funds from current operations, use of accumulated funds, and borrowing from the National Bank and private individuals. By early 1970 the government's financial position had improved enough to induce the International Monetary Fund to reinstate a \$2.2 million standby credit, none of which has been used. Despite an 11% decline in coffee and sugar sales, export earnings remained at the 1968 level (see Figure 2) because of larger shipments of bauxite and light manufactures. Exports of the new industries to the United States rose from \$4 million in 1968 to \$6 million in 1969, reaching 16% of the total.

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ECONOMIC INDICATORS

Figure 1. Production

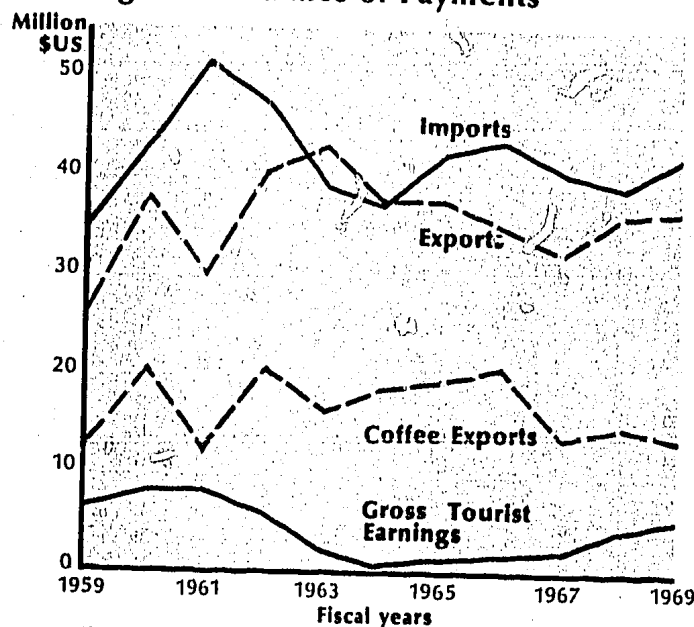


\*CIA estimates for GDP in 1963-64 and 1967-69; per capita data assume population growth of 2 1/2% annually.

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Figure 2. Balance of Payments



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Continuing Problems and General Outlook

10. Haiti's basic problems make it very difficult to attain even a moderate, sustained economic advance. The modest improvements achieved in 1969, and apparently continuing this year, can perhaps be extended for another year or two. Earnings from tourism should expand further, barring a political crisis, and growing exports of simple manufactures seem likely. Moreover, reopening of a long-idle sugar mill in 1970 will probably permit Haiti to boost sugar exports enough to fulfill its quota in the US market. These gains probably will more than compensate for continued weakness in other agricultural exports and may restore total earnings to about the 1963 level.

11. Over the next several years, it is questionable whether the economy will progress rapidly enough to maintain per capita output. The handicaps of too many people, scanty natural resources, and rudimentary economic structure will continue to hobble such development efforts as are made. The investment rate remains extremely low. Most transport and storage facilities are in bad shape. Without appreciable new investments, sales by labor-intensive export industries do not promise sufficient growth to outweigh reduced sales of traditional products. Foreign aid prospects are not especially bright, because total US allocations are declining, proper use of the money under Duvalier is doubtful, and Haiti has defaulted periodically on some obligations arising from its \$47 million foreign debt. Reclamation is needed simply to offset the loss of agricultural land area through erosion, and land is being shifted from commercial to subsistence farming because of population pressure and difficulty in competing in world markets for tropical crops. Poor sanitation, nutrition, medical care, and education -- plus the emigration of many Haitians of superior education and training -- combine to keep the quality of the work force low.

12. Equally discouraging are the Duvalier regime's unwillingness and inability to make the efforts called for and doubts that a successor government would necessarily be better. Under Duvalier, various development plans have been

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drawn up, but they have never been implemented. He attaches far more importance to his clique's welfare and to support of relatively large security forces than to spending on social welfare and development projects. Anti-government plotting and Duvalier's success in keeping an apparent successor from emerging have contributed to political uncertainties that can hardly fail to hold down investment.

Conclusions

13. Haitian output probably rose about as much as population in 1969 and early 1970, halting the deterioration of the mid-1960s in some respects but leaving economic activity well below earlier levels. Recent small improvements reflect the continuing establishment of small manufacturing operations (mostly with US capital), the partial recovery of tourist earnings, and a large rise in bauxite production. Haiti's cheap labor and location have been assets in developing both tourism and light, labor-intensive manufacturing. The latter involves assembling US-made components for re-export as well as promotion and organization of handicraft operations serving domestic and foreign markets.

14. Haiti's economy probably will show further small improvements during the next year or two. Prospects seem favorable for moderate gains in manufacturing and in agriculture, if hurricanes and drought do not interfere. Exports and tourist earnings should be able to recover more of the ground lost since the early 1960s. Even moderate economic progress will be difficult to attain over the long term, however, because of fundamental problems. Scarce resources are strained by overpopulation, effective institutions are largely lacking, and Duvalier's policies are self-serving. Most workers lack education, training, and elementary health care, and businessmen confront widespread government corruption and discouraging tax policies. As the poorest and most crowded Latin American country, Haiti faces difficulties that strongly inhibit domestic savings and foreign aid and encourage some of the most talented people to emigrate.

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